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Westly Applauds Passage of Accounting Reform Bill

Legislation Requires Stock Options Expensing for Top Executives

Sacramento, CA – State Controller Steve Westly today applauded the United States House of Representatives for passing H.R. 3574, co-sponsored by Representatives Anna Eshoo (D-Palo Alto) and Richard Baker (R-Baton Rouge). The bill requires the expensing of stock options only for a company's top executives, rather than for all employees as the Financial Accounting Standards Board (FASB) has proposed.

“Maintaining broad-based stock options that reward rank-and-file workers will help ensure that the United States remains the home of the next generation of entrepreneurial companies,” Westly said.

As California's chief financial officer, Westly serves on the board of CalPERS and CalSTRS, two of the nation's largest pension funds. A former senior executive at eBay, Westly is one of four statewide elected officials in the nation with a technology background.

Yesterday, Westly sent a letter to the California congressional delegation urging support for H.R. 3574. Text of the letter follows.

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STEVE WESTLY
California State Controller

July 19, 2004

The Honorable Nancy Pelosi
House Democratic Leader
United States House of Representatives
Washington, D.C. 20515

Dear Representative Pelosi:

RE: H.R. 3574, the Stock Option Accounting Reform Act

As California's chief financial officer and board member of the California Public Employees' Retirement System and California State Teachers' Retirement System, I urge you to support the Stock Option Accounting Reform Act (H.R. 3574), co-sponsored by Representatives Anna Eshoo and Richard Baker.

Broad-based stock option plans have played, and continue to play, a key role in the formation and growth of innovative companies that drive California's economic engine. Giving workers an ownership stake in their companies aligns incentives for all employees, from entry-level staff all the way up to the CEO.

Unfortunately, abuses by top executives at major corporations in the late 1990s have led some federal policymakers to pursue changes in accounting standards that would devastate these broad-based stock options plans.

I strongly support thoughtful regulatory measures that promote accountability and transparency to investors. However, I believe that we should focus on the top corporate executives where we have seen egregious problems, and not on incentives provided to rank-and-file workers.

H.R. 3574 provides the right solution to the stock options dialogue by creating a balance between preventing excesses and fostering economic vitality:

1. **The bill focuses on the real problem – future options-driven excesses.** By requiring companies to expense options for its most highly paid executives, the bill will discourage the inappropriately large options grants that led in part to recent corporate abuses.
2. **The bill preserves incentives for startups to form and grow in America.** Early-stage firms can continue to use the promise of "upside" from options to compete for talent against more established companies.

3. **The bill's consistent accounting rules benefit investors.** Right now, there is no standard convention for stock options accounting – some companies are expensing options, while others are not. The bill's approach will be uniform, fair, and transparent to investors.

I have served as a senior executive of a number of technology companies, including eBay. Neither eBay nor any other similar company could have attracted the talent necessary to succeed without offering broad-based stock options plans. Passage of H.R. 3574 is crucial to continuing these types of plans and ensuring that the next generation of successful technology companies is headquartered in the United States.

I urge you to support this bill and vote for its passage. Thank you for your consideration.

Sincerely yours,

Original signed by:

STEVE WESTLY
California State Controller

cc: The Honorable Anna Eshoo
The Honorable Richard Baker